

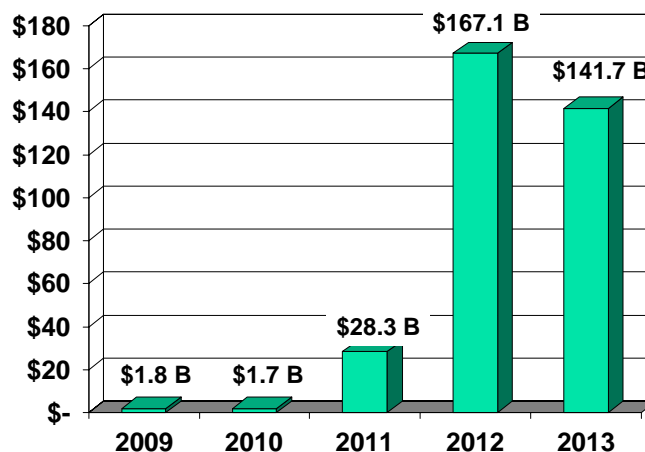


THE BAUCUS BUDGET AMENDMENT: TAX CUTS FOR FAMILIES, HOMEOWNERS, & SOLDIERS

The U.S. Senate is preparing to vote on a budget resolution that will help to restore America's economy and put the right priorities front and center in a fiscally responsible way. Senate Finance Committee Chairman Max Baucus (D-Mont.) is leading the effort to maximize the budget's help to America's working families over the next five years. A proposed Baucus amendment will use surplus funds in the Senate budget to provide tax cuts to every American taxpayer. The amendment includes:

- Permanent extensions of 2001 tax cuts that help working families
- A new standard property tax deduction available to any American homeowner
- Billions of dollars in tax relief for America's military men and women
- Protection from unexpected tax bills for Gulf Coast hurricane survivors

Baucus Amendment Provides \$340 Billion in Middle Class Tax Relief



Turning surplus budget dollars into tax relief for American families is the right thing to do.

The following report from the Senate Finance Committee explains who will benefit from the Baucus amendment, and how – all the reasons why America's families need this measure.

Key Information on the Baucus Amendment:

- Every American taxpayer benefits from the permanent extension of the 10% tax bracket, which lowers the effective tax burden on a portion of every wage-earner's income.
- The standard Federal deduction for property taxes will help 28.3 million American property owners who currently do not itemize on their Federal tax returns.
- Military tax relief will help America's fighting men and women count their combat pay toward vital tax credits, better afford health care and retirement, and keep good-paying jobs back home while they serve overseas.
- Tens of thousands of American families will receive relief from the estate tax when rates are held to 2009 levels.

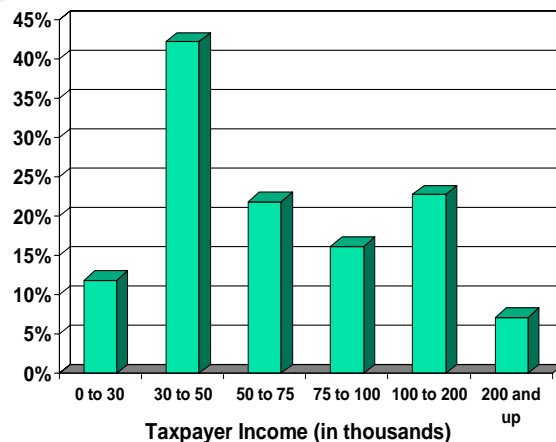
Extensions of 2001 Tax Cuts for America's Working Families

Major tax relief legislation passed by the Congress in 2001 contained a number of provisions aimed directly at America's working families. These provisions are set to expire at the end of 2010. The budget surplus and the Baucus amendment offer an opportunity to make their tax relief permanent by extending the cuts through the end of the five-year budget window.

Extending the Ten Percent Tax Bracket

The 10 percent tax bracket created in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 allows the first \$7,750 of every American's income to be taxed at a 10 percent rate – a cut from the 15 percent rate originally applied to that income. The Baucus amendment provides \$121 billion in additional tax relief to all American taxpayers by extending the 10 percent tax bracket. The Joint Committee on Taxation (JCT) estimates the average tax savings will be \$498. As the following chart shows, America's middle-income taxpayers will benefit the most.

**Extending the 10% Tax Bracket:
Who Benefits from \$121 Billion Tax Cut**



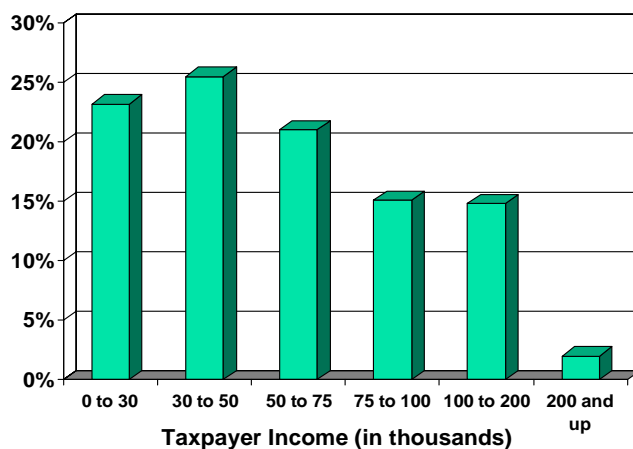
Extending Marriage Penalty Relief

The "marriage penalty" is the additional tax paid by husband and wife over and above what the couple would have paid if they were not married. EGTRRA modified tax requirements for married couples filing jointly, doubling the standard deduction and taxing more of the couple's income at the 15 percent rate. According to JCT, the Baucus extension of these provisions will benefit 29.5 million American couples with an average savings of \$686 per year.

Extending the Refundable Child Tax Credit

EGTRRA increased the \$500 tax credit for each dependent child claimed on a Federal tax return to \$1,000. The Baucus amendment uses surplus budget funds to continue the increased child tax credit, and ends indexing of income eligibility levels to help more Americans receive the credit as a "refundable" payment. JCT estimates that 31.3 million Americans will benefit from the extended child tax credit with an average savings of \$1,025. The vast majority of these families will have incomes under \$75,000 per year.

Extending the Child Tax Credit: Who Benefits from \$71 Billion Tax Cut



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Additional Family Tax Relief in the Baucus Amendment

- Adoptive parents will continue to receive a \$10,000 tax credit for qualified adoption expenses and for the adoption of children with special needs. EGTRRA increased that credit from \$5,000 – \$6,000 for special needs children – in 2001.
- Parents will continue to receive a 35 percent tax credit for child care expenses, and rules increasing the amounts eligible for that child care tax credit will stay in place.

A Standard Deduction for Property Taxpayers

Currently, an estimated 71.8 million Americans pay property taxes. Present law allows only those who itemize deductions on their Federal tax returns to deduct State and local property taxes from their income. Only 43.5 million property taxpayers do so. Baucus's "Non-Itemizer Real Property Tax Deduction" provides a standard deduction – \$500 for single filers and \$1,000 for joint filers – for the remaining 28.3 million non-itemizers who pay property taxes, making tax relief available to all.

Based on the most recent available data (2005), the Congressional Research Service has prepared the following table estimating how many Americans may benefit from this standard property tax deduction in each state.¹

Potential Taxpayers Benefiting from Standard Property Tax Deduction – from Most Recent Data (2005)

State	Owner Occupied Housing Units	Returns with Real Estate Property Taxes Paid Deduction	Tax Units that May Benefit from a New Deduction for Property Taxes Paid	Median Property Taxes Paid
Alabama	1,261,475	498,063	763,412	\$302
Alaska	147,019	79,047	67,972	\$2,241
Arizona	1,502,457	864,688	637,769	\$1,133
Arkansas	736,825	236,686	500,139	\$459
California	7,070,138	5,224,002	1,846,136	\$2,278
Colorado	1,233,695	827,901	405,794	\$1,297
Connecticut	919,943	700,479	219,464	\$3,865
Delaware	229,860	133,441	96,419	\$806
District of Columbia	105,518	79,592	25,926	\$1,444
Florida	4,903,949	2,366,979	2,536,970	\$1,495
Georgia	2,218,217	1,334,250	883,967	\$1,050
Hawaii	256,578	160,465	96,113	\$924
Idaho	379,948	197,145	182,803	\$1,226
Illinois	3,277,573	1,930,765	1,346,808	\$2,904
Indiana	1,759,089	817,292	941,797	\$1,079
Iowa	877,796	388,095	489,701	\$1,355
Kansas	744,580	355,493	389,087	\$1,337
Kentucky	1,167,973	496,098	671,875	\$693
Louisiana	1,136,873	250,970	885,903	\$175
Maine	389,203	185,050	204,153	\$1,742
Maryland	1,438,614	1,110,649	327,965	\$2,159
Massachusetts	1,567,885	1,163,183	404,702	\$2,974
Michigan	2,903,328	1,569,212	1,334,116	\$1,846

¹ CRS notes that post-2005 fluctuations in the real estate market may have resulted in changes to the potential number of beneficiaries in each state.

Minnesota	1,530,659	959,556	571,103	\$1,618
Mississippi	757,446	239,302	518,144	\$416
Missouri	1,614,217	757,331	856,886	\$1,012
Montana	254,458	124,729	129,729	\$1,309
Nebraska	474,682	227,335	247,347	\$1,889
Nevada	550,125	374,845	175,280	\$1,445
New Hampshire	362,854	225,495	137,359	\$3,920
New Jersey	2,114,072	1,662,729	451,343	\$5,352
New Mexico	504,354	197,843	306,511	\$707
New York	3,936,378	2,503,320	1,433,058	\$3,076
North Carolina	2,325,140	1,260,312	1,064,828	\$966
North Dakota	182,490	49,365	133,125	\$1,326
Ohio	3,152,610	1,671,488	1,481,122	\$1,598
Oklahoma	937,051	400,073	536,978	\$635
Oregon	909,113	613,367	295,746	\$1,910
Pennsylvania	3,474,048	1,721,496	1,752,552	\$1,937
Rhode Island	254,639	177,552	77,087	\$3,071
South Carolina	1,146,620	558,233	588,387	\$642

Sources: CRS calculations based on U.S. Census Bureau, American Community Survey, and Internal Revenue Service, Statistics of Income.

Additional Housing Tax Relief in the Baucus Amendment

To help families along America's Gulf Coast continue to rebuild after Hurricanes Katrina and Rita, the Baucus amendment also keeps those families from being hit with extra taxes when they take state grants.

The Baucus amendment will ease tax burdens on homeowners who claimed a casualty loss deduction following the 2005 hurricanes and who have also received a state Road Home rebuilding grant.

This provision continues the work that Congress began in early September, 2005, to ease financial burdens and aid rebuilding efforts for hundreds of thousands of Gulf Coast residents affected by deadly hurricanes that year.

Tax Relief for America's Military Men and Women

Since 2001, 1.4 million American servicemen and women have served America in Iraq, Afghanistan, or both. Tens of millions more Americans are military veterans.


Late last year, the Senate passed the Defenders of Freedom Tax Relief Act of 2007 – a Baucus bill providing tax relief to America's military men and women. The Baucus amendment to the Senate budget includes this fully-offset proposal, with tax cuts that will recognize the unique financial sacrifices of military service, protect jobs, and ease financial burdens during and after military deployment. Provisions are as follows:

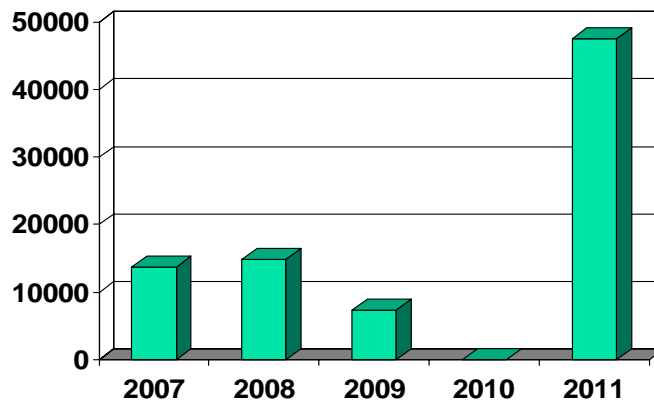
- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit, a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families.
- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.
- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.
- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans—such as payments of excess state revenue—as nontaxable gifts.
- A permanent extension of a provision that gives intelligence service employees a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home from capital gains tax, which is often necessary due to frequent deployment. This provision is also extended to members of the Peace Corps.
- Permission to exclude a soldier's basic housing allowance when income status is determined for purposes of a developer's eligibility for low-income housing credits and tax exempt bonds.
- The ability for families of Reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer (Included in H.R. 3997).
- A permanent allowance for veterans to use qualified mortgage bonds to purchase homes.
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts.
- A 180-day period for Reservists called to active duty to use unspent funds in a health flexible spending account or cafeteria plan.

Keeping Estate Tax Rates Down


Family farms, ranches, or large estates can be subject to heavy taxation when transferred to heirs under the current Federal estate tax. Baucus favors total repeal of the estate tax. While he works toward that goal, the Baucus amendment will prevent a scheduled 2011 spike in estate tax rates.

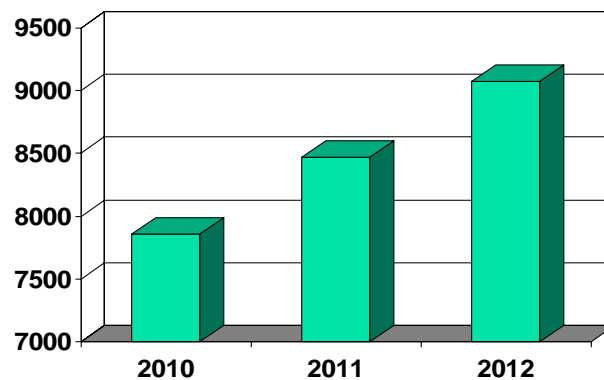
As the following charts show, nearly 50,000 American families could be snared by the estate tax in 2011 under current law. The Baucus amendment slashes that number to less than 10,000 as efforts for additional reform and repeal continue.

 Number of Taxable Estate Returns Under Current Law



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 Number of Estate Tax Returns If 2009 Law is Made Permanent



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